

**FILED**

Sep 29, 2020

SUSAN Y. SOONG  
CLERK, U.S. DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO

DAVID L. ANDERSON (CABN 149604)  
United States Attorney

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION

UNITED STATES OF AMERICA,	)	CASE NO.
Plaintiff,	)	
v.	)	<u>VIOLATIONS:</u>
LEWIS WALLACH,	)	18 U.S.C. § 1343 – Wire Fraud;
Defendant.	)	18 U.S.C. § 1349 – Conspiracy to Commit Wire
	)	Fraud;
	)	18 U.S.C. § 981(a)(1)(C) and 28 U.S.C. § 2461(c) –
	)	Forfeiture Allegation
	)	
	)	SAN FRANCISCO VENUE

I N F O R M A T I O N

The United States Attorney charges:

Introductory Allegations

At all times relevant to this Information:

1. Professional Financial Investors, Inc. (“PFI”) was a California company formed in 1990 that maintained its headquarters and operations in Novato, California. PFI, and related and subsidiary companies owned or controlled by PFI, owned and managed numerous commercial and multi-unit residential properties in Marin and Sonoma Counties in California. Professional Investors Security Fund, Inc. (“PISF”) is a California company formed in or about 1983 also headquartered in Novato, California. PISF and PFI solicited investors and raised funds used in part to acquire and maintain the various properties owned and controlled by PFI and related subsidiary companies. Although PFI, PISF, and

INFORMATION

1 related companies that owned or managed properties were separate entities, they were operated and  
2 managed as a single enterprise, with overlapping staff, common accounting and record-keeping systems,  
3 and a common office space.

4 2. INDIVIDUAL-1, not a defendant herein, was the founder of PFI and PISF.  
5 INDIVIDUAL-1 was the sole shareholder and president of PISF, and exerted control over and managed  
6 both PISF and PFI. INDIVIDUAL-1 died on or about May 6, 2020.

7 3. The defendant LEWIS WALLACH resided in Encino, California, and served as the  
8 president and CEO of PFI and served in a management role at PISF. He was hired by PISF and PFI in  
9 approximately 1990. By no later than 2013, WALLACH had significant responsibility for overseeing  
10 operations of PFI and PISF, including the management of the properties, the acquisition and financing of  
11 properties, the solicitation of investors, and signing investment documents on behalf of PFI and PISF.

12 4. PFI and PISF obtained capital to acquire property and to fund its operations by raising  
13 funds from individual investors predominantly located in Marin County, California and other counties in  
14 Northern California. PFI, either directly or through subsidiary or related companies owned or controlled  
15 by PFI and INDIVIDUAL-1, owned approximately 70 pieces of residential or commercial property in  
16 Marin and Sonoma Counties. As of June 2020, PFI and PISF had raised significant funds from investors,  
17 providing investors with various types of notes, including the following investment vehicles: (1) loans  
18 from investors documented by notes that were purportedly secured by PISF's ownership interests in  
19 certain LPs that owned particular pieces of property; (2) interests in LLCs or limited partnerships  
20 managed by PFI that owned and managed a particular piece of property; and (3) loans from investors  
21 secured by deeds of trust recorded on particular pieces of property.

22 5. From 2015 through in or about May 2020, PFI and PISF raised more than \$350 million  
23 from more than 1,000 individual investors.

#### 24 THE SCHEME TO DEFRAUD

25 6. From a time unknown but no later than 2015, and continuing through in or about May  
26 2020, defendant LEWIS WALLACH, INDIVIDUAL-1, and others known and unknown to the United  
27 States Attorney, engaged in a scheme, plan, and artifice to defraud investors as to a material matter, and  
28 to obtain money and property by means of materially false and fraudulent pretenses, representations, and

1 promises, by making materially false and misleading statements, and failing to disclose material facts  
2 with a duty to disclose.

3 7. The objectives of the scheme to defraud were, among other objectives, (a) to induce  
4 investors to purchase notes and otherwise invest in PFI and PISF by making false claims and omitting  
5 material facts regarding the financial condition of PFI and PISF, the profitability and value of the  
6 properties owned and managed by PFI and related companies, and the use of the funds loaned and paid  
7 to PFI and PISF by investors; (b) to obtain and then comeingle investor money by disregarding the  
8 corporate structure, and spending investor money to further properties and entities other than those that  
9 some investors were affiliated with, including using funds invested in certain projects to be used to pay  
10 operating expenses for other projects; and (c) to misappropriate and embezzle company assets and  
11 investor funds for personal use.

12 8. Through the scheme to defraud, and false statements and omissions, WALLACH,  
13 INDIVIDUAL-1, and others, obtained money and property. WALLACH misappropriated and  
14 embezzled approximately \$26 million in funds from one account held by PISF during the time period  
15 from about April 2015 to May 2020. This misappropriation included large investments in various  
16 ventures, including a land development project in Texas, an office space development project in  
17 California, and oil and gas exploration and development projects. INDIVIDUAL-1 misappropriated  
18 funds of PFI and PISF, including directly converting investor funds for personal use, paying for personal  
19 income tax liability, purchasing real estate held in his name, and by using company employees and  
20 resources for repairs and renovations on a personal residence at company expense.

21 9. In addition, from a time unknown but no later than 2015, WALLACH and  
22 INDIVIDUAL-1 were aware that the revenue from the ownership and management of the properties  
23 owned and controlled by PFI was insufficient to meet obligations to pay interest payments and  
24 distributions to existing investors, and knew that new investor funds would be required to continue to  
25 pay interest payments and distributions. Investors were told that the properties were profitable, that PFI  
26 asset value and cash flow was sufficient to repay the notes and investments. To assure investors that PFI  
27 was a sound and safe investment, both WALLACH and INDIVIDUAL-1 touted the fact that PFI and  
28 PSIF had never missed an interest payment or distribution, and that investors could withdraw their

1 principal amount at any time. In fact, as WALLACH and INDIVIDUAL-1 both knew, in order to make  
2 continued payments of distributions and interest and to repay investors who sought withdrawals, PFI and  
3 PISF needed to continue to collect new investor funds, and that contrary to the representations about the  
4 use of funds new investor funds were in fact used to pay interest and distributions to previous investors.

5 10. In furtherance of the scheme to defraud, WALLACH and INDIVIDUAL-1 used a variety  
6 of means and methods, including:

- 7 a. Making false statements in the solicitation of investors for PFI, PISF, and related projects  
8 or properties, including false statements regarding the use of funds, the value and  
9 ownership of properties, the profitability of the properties managed by PFI, the amounts  
10 held in “reserve” funds associated with particular properties or PFI, and the overall  
11 financial condition of the companies;
- 12 b. Making false statements, and omitting true facts that PFI, PISF, WALLACH, and  
13 INDIVIDUAL-1 had a duty to disclose, regarding the use of new investor funds to pay  
14 for interest and distributions owed to prior investors, in the manner of a Ponzi scheme;
- 15 c. Falsely reassuring new and prospective investors in April and May 2020 that PFI was  
16 going to survive the economic stress caused by the COVID-19 pandemic, and had the  
17 resources to continue to expand and remain profitable, in part because of purported  
18 reserve funds set aside for PFI and individual properties, when in fact all the reserves had  
19 been nearly depleted;
- 20 d. Diverting investor funds that were intended for particular projects or LLC entities, co-  
21 mingling and using any available funds to pay the expenses and costs for other projects;
- 22 e. Misappropriating and embezzling PFI and PISF funds for personal use, including the  
23 purchase of property owned individually by WALLACH or INDIVIDUAL-1, the  
24 payment of personal income tax liability, the payment of personal expenses incurred on  
25 personal credit cards, and investments in business ventures and partnerships that were  
26 unrelated to PFI or PISF.

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1 COUNT ONE: (18 U.S.C. § 1343 – Wire Fraud)

2 Paragraphs 1 through 10 of this Information are re-alleged and incorporated as if fully set forth  
3 here.

4 Beginning on a date unknown, but no later than in or about 2015 and continuing through in or  
5 about May 2020, in the Northern District of California and elsewhere, the defendant,

6 LEWIS WALLACH,  
7 knowingly and with the intent to defraud participated in, devised, and intended to devise a scheme and  
8 artifice to defraud as to a material matter, and to obtain money and property by means of materially false  
9 and fraudulent pretenses, representations, and promises, and by means of omission and concealment of  
10 material facts.

11 THE USE OF THE WIRES

12 On or about August 2, 2018, in the Northern District of California and elsewhere, for the purpose  
13 of executing the aforementioned scheme and artifice to defraud, the defendant did knowingly transmit  
14 and cause to be transmitted in interstate and foreign commerce, by means of a wire communication,  
15 certain writings, signs, signals, pictures, and sounds, specifically, a wire transfer of \$90,000 from an  
16 account held in the name of Professional Financial Investors, Inc. at Umpqua Bank, in the Northern  
17 District of California, to an account held at Compass Bank, in the Northern District of Texas,  
18 transmitted in interstate commerce through the FedWire fund transfer system.

19 All in violation of Title 18, United States Code, Section 1343.

20 COUNT TWO: (18 U.S.C. § 1349 – Conspiracy to Commit Wire Fraud)

21 Paragraphs 1 through 10 of this Information are re-alleged and incorporated as if fully set forth  
22 here.

23 Beginning on a date unknown, but no later than in or about 2015 and continuing through in or  
24 about May 2020, in the Northern District of California and elsewhere, the defendant,

25 LEWIS WALLACH,  
26 INDIVIDUAL-1, and others known and unknown to the United States Attorney, did knowingly conspire  
27 to devise and intend to devise a scheme and artifice to defraud as to a material matter, and to obtain  
28 money and property by means of materially false and fraudulent pretenses, representations, and

promises, and by omission and concealment of material facts, and, for the purpose of executing such scheme or artifice and attempting to do so, did transmit, and cause to be transmitted, by means of wire communication in interstate and foreign commerce, certain writings, signs, signals, pictures, and sounds, in violation of Title 18, United States Code, Section 1343.

All in violation of Title 18, United States Code, Section 1349.

FORFEITURE ALLEGATION: (18 U.S.C. § 981(a)(1)(C) and 28 U.S.C. § 2461(c))

The allegations contained in this Information are re-alleged and incorporated by reference for the purpose of alleging forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c).

Upon conviction for any of the offenses set forth in this Information, the defendant,  
  
LEWIS WALLACH,  
shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), all property, real or personal, constituting, or derived from proceeds the defendant obtained directly and indirectly, as the result of those violations.

If any of the property described above, as a result of any act or omission of the defendant:

- a. cannot be located upon exercise of due diligence;
- b. has been transferred or sold to, or deposited with, a third party;
- c. has been placed beyond the jurisdiction of the court;
- d. has been substantially diminished in value; or
- e. has been commingled with other property which cannot be divided without difficulty,

the United States of America shall be entitled to forfeiture of substitute property pursuant to Title 21, United States Code, Section 853(p), as incorporated by Title 28, United States Code, Section 2461(c).

All pursuant to Title 18, United States Code, Section 981(a)(1)(C), Title 28, United States Code, Section 2461(c), and Federal Rule of Criminal Procedure 32.2.

DATED: September 29, 2020

DAVID L. ANDERSON  
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LLOYD FARNHAM  
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